

Facts for Consumers

Service Contracts

Service Contract

If you are buying a car or major appliance, you may be offered a service contract. To many consumers, buying a service contract is like buying “peace of mind” from repair hassles. An estimated 50% of all new car buyers, and many used-car and major appliance buyers, purchase service contracts. The cost can range from \$50 to \$500, depending on the length and amount of coverage provided. Some consumers, however, may be paying for more protection than they need.

Before you buy a service contract, consider the following:

What does the service contract offer?

A service contract, like a warranty, provides repair and/or maintenance for a specific time period. Warranties, however, are included in the price of the product, while service contracts cost extra and are sold separately.

What is covered by the service contract?

A service contract may cover only certain parts of the product or specific repairs. Read the contract carefully and, if it does not list something as specifically covered, assume that it is not. Service contracts do not cover repairs resulting from misuse or failure to maintain the product properly. Also, you may be obligated to take certain action, such as notifying the company of problems, to insure the service contract is not voided.

What will the service contract give you that the warranty will not?

Before considering a service contract, make sure you know what your warranty coverage is. Carefully compare the coverage of your warranty to the coverage offered by the service contract to decide if the service contract is worth the additional expense. For more information about warranties, send for *Warranties*, a free brochure from the Federal Trade Commission, by writing to: Consumer Response Center, Federal Trade Commission, Washington, D.C. 20580. You also may write to this address to receive a free copy of *Best Sellers*, a listing of all the FTC's consumer publications.

Is the product likely to need repairs?

You may not benefit from a service contract if the product is unlikely to need servicing or if the potential cost of repairs is very low.

What other costs will you have?

You may have other expenses after you buy a service contract. Service contracts, like insurance policies, often have deductible amounts. Or, you may be charged each time the item is serviced. Some expenses are limited or excluded. For example, auto service contracts may not completely cover towing or rental car expenses. In addition, you may have to pay cancellation or transfer fees if you sell the covered product or wish to end the contract.

Where can you get service?

If the service contract is offered by a local retailer or dealer, you may only be able to get local service. Consider the possibility that problems may develop while you are traveling or after you move away from the area.

Who is responsible for the contract?

The Federal Trade Commission often gets letters from consumers who ask what they can do about a service contract company that has gone out of business and cannot repay claims. Unfortunately, there is little recourse available to these consumers. The best way to avoid this situation is to consider, before you sign a contract, whether the company is reputable. Ask your local or state consumer protection office, Better Business Bureau, or state insurance commission if they have any complaints against the company.

Can you purchase a service contract later?

You may be better able to decide if you need a service contract after you have owned the product for some time. Consider waiting until your warranty period expires to buy a service contract.

Although the Federal Trade Commission cannot represent you directly in a dispute with a company, it wants to know if companies are not meeting their service contract obligations. Contact the Consumer

Response Center by phone: toll-free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502; by mail: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580; or by e-mail: use the complaint form at www.ftc.gov.

Federal Trade Commission	Toll-free 1-877-FTC-HELP
www.ftc.gov	For the Consumer